FINAL EDITIONS?
SPLIT-RUN EDITIONS AND CANADA'S AILING MAGAZINE INDUSTRY

Current Issue Paper 148

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ISSN 0835-0299

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December 1993

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INTRODUCTION

Observers of the Canadian magazine industry have long been aware of the trade's principal ills: low profits, energetic American competitors, and varying degrees of protection by federal legislation and customs regulations. Prompted in part by the demands of the $838 million magazine industry,[1] the federal government has tried to protect the industry from "those ancient villains, U.S. magazines flowing across the border"[2] through various changes to tax laws, customs codes, and other legal guidelines. But the magazine industry, half of which is based in Ontario, has consistently pressed government for more protection from its richer U.S. cousin.

In its most recent response, the Government of Canada did attempt to provide some shelter for the industry. In summer 1993, Ottawa announced that it would act on recommendations of its Task Force on the Canadian Magazine Industry by making it difficult for American magazines to get approval to publish "split-run" Canadian editions in Canada.[3] A split-run edition is a U.S. magazine with its editorial content slightly altered to include some Canadian material and advertising geared for the Canadian market. As a business move, split-runs are highly rewarding for U.S. publishers: since production costs are already covered by their U.S. market, selling space to Canadian advertisers is icing on the cake. Just such a series of split-run *Sports Illustrated* issues this year prompted the recent federal government's pre-election announcement.

The Canadian magazine industry argues that split-runs siphon off scarce advertising revenue that would otherwise be spent on Canadian publications and point to the fact that 64% of all magazine revenues come from selling advertising space. This issue is particularly distressing to the Ontario magazine industry: the province has 65% of the country's $536 million of advertising revenues and 70% of all industry profit. [4] During an era that has seen circulation dive, revenues plummet, and newsroom staff purged, the industry's immediate concern is its viability. The subtext of the issue, however, is the long-debated problem of American cultural influence in Canada.

FIFTY YEARS OF AMERICAN COMPETITION

The threat of split-run magazines taking advertising revenues from the Canadian industry is not new. Unlike newspapers, which because of their local nature have few outside competitors, magazines in this country have for 50 years endured aggressive marketing and editorial competition from their U.S. counterparts. In 1943, *Time* and *Reader's Digest* established Canadian editions operating with Canadian-based editorial and advertising sales staff; by 1960 these two magazines had captured nearly half of every dollar spent on magazine advertisements in the country.[5] Coupled with this competition, a newly popular medium, television, began to beam advertisements into Canadian homes at an increasing rate. In 1953, 10% of Canadian homes owned televisions; by 1961, 84% had them. Magazines' share of advertising dollars dropped by almost half, from 4.2% in 1954 to 2.4% in 1969.[6]

By the mid-1950s, almost four out of five of the magazines Canadians were reading were American. It was not only *Time* and *Reader's Digest* that were taking readership and advertising dollars, but also specialty magazines such as *Family Circle* and *Woman's Day*. Meanwhile, important Canadian titles were dropping off newsstands: *New World Illustrated* (1948), *National Home Monthly* (1950), and *Canadian Home Journal* (1958) were three large casualties. In 1956 the federal government, hoping to check the rate of Canadian failures, introduced a 20% tax on advertising in magazines containing 25% or more editorial material identical to that found in their foreign editions and carrying advertising not in the parent publication. *Time* protested, and *Reader's Digest* launched a court case; but by the time the Conservatives won the next federal election and repealed the tax, the government had collected about $500,000.

By the 1960s, it was feared that the story of Canada's magazine industry was not to have a Hollywood ending. Prime Minister Diefenbaker established the Royal Commission on Publishing, chaired by Grattan O'Leary, editor of the *Ottawa Journal*, to explore the effects of competition from foreign-owned publications. The Commission's report stated that "a nation's domestic advertising expenditures should

be devoted to the support of its own media of communications," and that "there can be no excuse for the republication in Canada of periodicals which are not much more than facsimiles of those abroad."[7] In 1965, the Pearson government implemented two O'Leary Commission recommendations aimed at bolstering the Canadian magazine industry by keeping advertising dollars north of the border:

- it disallowed tax deductions from advertising costs when ads were placed in foreign periodicals and aimed at the Canadian market, and

- it amended the Customs Tariff to prevent entry into Canada of split runs or regional editions containing advertising directed at the Canadian market, and prevented magazines from entering if more than 5% of their advertising was directed at Canadians (this is now "Tariff Item 9958").[8]

The tax and customs provisions exempted existing special Canadian editions of *Time* and *Reader's Digest*. In an 11-year period ending in 1969, *Time* and *Reader's Digest* increased their share of Canadian magazine advertising revenue from 43% to 56%. Former *Maclean's* editor Peter C. Newman has argued that they captured so much of the Canadian advertising business that they contributed to the failure of 200 Canadian periodicals.[9] A 1968 Special Senate Committee on Mass Media (known as the Davey Committee) recommended that the two magazines' exemptions be repealed, that the magazines be required to sell 75% of their stock in their Canadian subsidiaries to Canadian residents, and that at least 75% of their officers and directors be Canadian residents.[10]

The Davey Committee's recommendations took a long time to become law. In 1975, Bill C-58 was introduced as an amendment to the *Income Tax Act*. It was intended to divert advertising revenue from *Time* and *Reader's Digest* to Canadian-owned magazines. After considerable—often nationalistic—debate, Bill C-58 received royal assent on July 16, 1976. It contained the following provisions:

- It disallowed tax deductions for advertising expenses in non-Canadian media when the advertising was directed at the Canadian market.

- It defined a periodical as Canadian provided it was 75% Canadian-owned, and provided that the chairman and 75% of the board of directors were Canadians.

- It further defined a Canadian periodical as one that was edited, typeset, and printed in Canada. In addition, the periodical was not to be published under license, and the content had to be at least 80% different from a non-Canadian periodical.[11]

In response, *Time* magazine closed its Canadian editorial offices and cut Canadian content. However, it kept an advertising office and lowered its advertising rates so that, after tax, advertisers in the 50% corporate income tax bracket paid the same price as before Bill C-58. Without editorial costs *Time* became very profitable,[12] and the magazine is still available in a Canadian edition at increased prices. *Reader's Digest* was already partly Canadian-owned and through reorganization managed to qualify as 75% Canadian-owned. Revenue Canada exempted it from the "substantially different" rule, provided its Canadian content was increased and more was written by Canadians.

THE PRECARIOUS STATE OF THE CANADIAN MAGAZINE INDUSTRY

According to the Canadian Magazine Publishers Association (CMPA) the inaugural Canadian *Sports Illustrated* issue, with its 40 pages of Canadian ads[13] and its single article with a Canadian focus,[14] captured $250,000 of Canadian magazine advertising. By July 1993, the publication is said to have generated $1 million in ad revenues that might have otherwise gone to Canadian publishers.[15]

CANADA'S MAGAZINE INDUSTRY: 1991-92[16]

1,440 periodicals were published

521 million copies were circulated; of this number, 54% was paid circulation and 44% were free

Total revenues were $838 million

Advertising accounted for 64% of revenue

Subscription and single-copy sales accounted for 29% of revenue

There were 4,583 full time employees in the industry, 1,690 part time workers, and 4,046 volunteers

Between 1987-88 and 1991-92 revenue increased 13.5%, expenses increased 17%, and profit before taxes dropped 51%

Overall profit margins dropped from 6% in 1984-85 to 4% in 1989-1990 to 2.4% in 1990-91.

With foreign magazine pages selling so cheaply, the Canadian industry says, domestic periodicals are in danger of extinction. Indeed, although in 1990-91 the industry reported advertising revenues of $536 million, its profits were only $19.7 million,[17] a relatively small margin which, the CMPA says, could be wiped out completely with a shift of only 3% in ad revenues to foreign magazines.[18] Ontario magazines' profits last year were a mere $13.9 million, a margin typical of the unforgiving publishing industry.

The slimness of profit margins in the industry is such that between 1950 and 1972, Canadian editions of *Time* and *Reader's Digest* were blamed for taking enough advertising space to force 200 Canadian magazines—with a total circulation of 10 million copies—to shut down. Those that failed included a Canadian *Sports Illustrated* (started before its American counterpart), *Mayfair*, *Liberty*, and *Canadian Home Journal*.[19]

ONTARIO'S MAGAZINE SEGMENT: 1991-92
THE LION'S SHARE[20]

Revenue from advertising space sold in Ontario magazines: $347 million
Expressed as a percentage of all Canadian ad revenues: 64.8%

Revenue from single-copies sold in Ontario: $23.3 million
Expressed as a percentage of all Canadian single-copy sales: 39.5%

Revenue from subscriptions to Ontario magazines: $91.8 million
Expressed as a percentage of all subscription sales: 49.7%

Total revenue of the Ontario magazine industry: $494.7 million
Expressed as a percentage of all Canadian revenues: 59%

Salaries, wages and fees paid to Ontario magazine contributors: $107 million
Expressed as a percentage of all such Canadian payments: 58%

Ontario profit before taxes: $13.8 million
Ontario pre-tax profit as a percentage of all Canadian profit: 71%
Expressed as a percentage of total revenue, before taxes: 2.8%

Journalism professor Peter Desbarats blames the federal government's delay in implementing the 1960 O'Leary Royal Commission recommendations with the bankruptcy of the respected magazine *Saturday Night* in 1974. While the magazine began publishing again in May 1975, the *Saturday Night* episode may have prompted the government to pass Bill C-58, protecting Canadian magazines from losing advertising dollars to U.S. competitors. Thanks to Bill C-58, the industry enjoyed a relative boom in the 1980s, but it still struggled to get attention from an audience that was increasingly turning to other sources for news and entertainment. Magazines fared poorly, lagging behind television and newspapers in profitability: while private television was able to make an 18% return, and newspapers 14%, magazines eked out only a 2.17% return.[21]

Maclean's: A Telling Example

Maclean's is hardly typical of Canadian publications; a large-circulation English-language news weekly, it has relatively little domestic competition. Still, its recent history is an illustration of just how precarious the Canadian magazine situation is. Peter C. Newman, a former *Maclean's* editor who fought the Time-Warner lobby and pushed for Bill C-58 in the mid-1970s, was one of the commentators disgruntled by the lack of federal government action to halt the publication of the Canadian edition of *Sports Illustrated.* (Like Newman, many cried foul months before the "offending" split-run was even printed). Newman, along with historian Fraser Sutherland, credits Bill C-58 for the 1975 renaissance of *Maclean's*. In 1971 the magazine had been in economic distress: the then newly appointed president of Maclean-Hunter, Donald Campbell, knew *Maclean's* was losing money and "even considered killing it."[22] With Newman as editor, the monthly *Maclean's* underwent massive changes in personnel and style; circulation went up 10%, and Newman aspired to take the magazine to two editions monthly. With the introduction of Bill C-58, the magazine had a green light to proceed. Hugh Faulkner, in introducing the Bill in the House of Commons, subtly referred to *Maclean's* by saying he hoped and expected that the Bill would "result in the creation of a Canadian newsmagazine."

Soon Maclean-Hunter had spent $4.5 million on new offset presses and binding equipment, changed to photocomposition technology, and established wire service and news photo lines. With twice-monthly issues, the magazine hired new staff, taking editorial talent from Canadian newspapers and *Time* magazine's Toronto bureau chief, senior editor, and chief researcher. By 1978, *Maclean's* had become a weekly and it continues to publish.[23]

SPORTS ILLUSTRATED: THE LATEST CHALLENGE

In January 1993, Time Warner announced through its Time Canada subsidiary that it planned to issue six special Canadian issues that year of *Sports Illustrated*, "a separate periodical featuring expanded coverage of the sports and teams of Canada," to be

printed in Richmond Hill, Ontario, and offering advertising space at very low rates. While Canadian advertisers celebrated their good fortune at a launch party, the country's cultural community, faced with yet another split-run, again complained that Canadian laws, though "created to protect Canada's cultural industries from U.S. poachers," were inadequate.[24]

The problem for Canadian publishers is that split-runs are cheap. With most of its editorial costs already covered in the United States, a split-run *Sports Illustrated* can offer a page to advertisers for one-quarter the price of a mainstream Canadian magazine such as *Maclean's:* in spring 1993, space for a full-page, four-colour advertisement in *Sports Illustrated* was selling for $6,250, as compared with the *Maclean's* rate of $25,400. Defenders of the magazine business protested that unless the federal government prohibited such split runs, the discounting "would destroy Canada's magazine industry."[25]

In response, *Sports Illustrated*'s general manager maintains that their pricing does not severely undercut domestic magazines when considered in terms of advertising cost per thousand copies (known as CPM in the industry). With its smaller overall circulation, the advertising cost for 1,000 issues of *Sports Illustrated* is approximately $50, whereas the cost for *Maclean's*, which has a larger circulation, is $46 (before tax). While the cost of advertising seems to be similar in terms of cost per thousand copies, that measure alone is inadequate as an indicator when calculating the efficiency of advertising expenditure. As publishers and advertisers often point out, *Sports Illustrated* has 5 readers per issue, while *Maclean's,* for example, has 1.9 readers, and *Saturday Night* has 1.1 readers.[26] According to the CMPA, the number of readers per issue, or "gross audience impression," is a more important indicator than the CPM.[27] Given similar advertisement costs per thousand copies, advertisers would be more likely to buy space in a magazine attracting 5 readers per issue than one with fewer than 2 readers per copy.

Competitive Analysis
Canadian & U.S. Magazines
Compared by Circulation, Advertising Rates & Cost Efficiency (CPMs)

	Edition	**Editorial Classification**	**Canadian Circulation**	**Canadian Page 4-Colour ($ Can.)**	**Canadian CPM's ($ Can.)**
Business Week	N. American	Business	27,723	$2,163	$78
Canadian Business	**Canada**	**Business**	**86,158**	**$9,859**	**$114**
Forbes	U.S.	Business	8,575	$639	$74
Fortune	N. American	Business	40,323	$3,136	$78
Maclean's	**Canada**	**News**	**598,707**	**$24,900**	**$42**
Newsweek	U.S.	News	75,592	$2,924	$39
Time	U.S.	News	356,572	$12,818	$36
People Weekly	U.S.	General	184,802	$6,038	$33
Reader's Digest	U.S.	General	1,290,181	$11,950	$9
Reader's Digest Canadian	**Canada**	**General**	**1,290,181**	**$25,680**	**$20**
Canadian Geographic	**Canada**	**General/Geo**	**258,053**	**$8,500**	**$33**
Equinox	**Canada**	**General/Geo**	**177,762**	**$9,715**	**$55**
National Geographic	U.S.	General/Geo	824,581	$12,961	$16
Canadian Living	**Canada**	**Women**	**572,851**	**$19,770**	**$35**
Chatelaine	**Canada**	**Women**	**972,000**	**$29,930**	**$31**
Cosmopolitan	U.S.	Women	178,338	$5,050	$28
Family Circle	U.S.	Women	137,346	$2,611	$19
Good Housekeeping	U.S.	Women	181,036	$4,566	$25
Women's Day	U.S.	Women	165,353	$3,152	$19
Woman's World	U.S.	Women	258,976	$4,056	$16

Source: Canadian Magazine Publishers Association, *The Importance of Section 19 of the Income Tax Act and Tariff Item 9958 to the Canadian Magazine Industry*, Brief to the Honourable Michael Wilson, Minister for International Trade, 19 September 1991.

Canadian magazine publishers were worried *Sports Illustrated* was able to take a large piece out of the Canadian advertising pot. Further angering Canadian publishers was Revenue Canada's finding that *Sports Illustrated* did not contravene the decades-old Tariff Item 9958. The tariff, known as the "split-run rule," allows Customs Canada to halt the import of a magazine that has violated at least one of two provisions. First, if a split-run, special, or regional edition entering Canada contains an ad primarily directed at a market in Canada, and if that periodical does not appear in identical form in all editions in the country of origin, Customs can prevent the next four issues from crossing the border. The split-run itself is not prohibited; rather, the split-run is the "trigger" that prohibits the import of the subsequent four issues.[28] Second, if a foreign magazine devotes more than 5% of its total advertising space to ads indicating Canadian sources of availability for any goods or services, Customs may halt the import of the subsequent four issues of the magazine.[29]

The difficulty for Revenue Canada is that the *Sports Illustrated* special Canadian editions are not typical split-runs. Originally, to "split a run" meant to stop the presses, insert new plates aimed at a particular audience, and then restart the presses.[30] *Sports Illustrated,* however, is not being split at the press, but is being beamed by satellite from New York to a printing plant in Richmond Hill, Ontario. Customs has no authority over satellite transmissions; it is only authorized to regulate "tangible goods," a loophole placing the transmission of the Canadian *Sports Illustrated* outside of its jurisdiction. (According to the CMPA, another periodical, *Auto Body Shop Business*, is a split-run printed in the same electronically transmitted manner.)

Federal Initiatives

About to lose a potential $1.5 million in advertising revenues to *Sports Illustrated* this year, the magazine industry began to lobby the federal government to take action. In March 1993, Communications Minister Perrin Beatty and Revenue Minister Otto

Jelinek announced a federal Task Force on the Canadian Magazine Industry to examine how legislation and other measures could be strengthened to prevent split-run advertising editions of foreign magazines.[31] At the end of May 1993, the Task Force made two recommendations:

(1) The government should make a clear public statement reaffirming its long-standing policy objectives for the Canadian magazine industry, with particular reference to split-run or "Canadian" regional editions sold in Canada with advertising aimed primarily at a Canadian audience.

(2) The *Related-Business Guidelines* under the *Investment Canada Act* should be amended to clarify the situation of magazines or periodicals not already being published in Canada. This amendment should state that an investment by a non-Canadian related to the publication, distribution or sale of a magazine or periodical not already being published in Canada would be considered to be an investment to establish a new business and not the expansion of an existing business.[32]

On July 19, 1993, the federal government responded to the Task Force's recommendations. Three senior ministers, Jean Charest, Deputy Prime Minister and Minister Designate of Industry and Science, Monique Landry, Secretary of State, Minister of Communications and Minister Designate of Canadian Heritage, and Garth Turner, Minister of National Revenue, gathered in Toronto to present the government's policy objectives for the industry and clarify the *Related-Business Guidelines* under the *Investment Canada Act*. They indicated that the government:

> . . . reaffirms its commitment to protect the economic foundations of the Canadian periodical industry, which is a vital element of Canadian cultural expression. . . . the Government will discourage the establishment of split-run or 'Canadian' regional editions . . . . We are committed to ensuring Canadians have access to Canadian ideas and information through genuinely Canadian magazines, while not restricting the sale of foreign magazines in Canada.[33]

At the same time, the government released its *Related-Business Guidelines, July 1993*. Under the heading "Expansion of an Existing Business," the guideline considers non-

Canadian investment in the magazine business to be investment in a new business and thus subject to review by Investment Canada, the country's watchdog on foreign investment. The rule holds even if that non-Canadian is already involved in the magazine publishing business. Part of Investment Canada's mandate is to review significant investments in Canada by non-Canadians to ensure that they are likely to be of net benefit to Canada.[34] Placing magazines under Investment Canada's protection will, it is hoped, make foreign publishers less likely to attempt split-runs.

The new guideline is not retroactive, however, and has no effect on the Canadian version of *Sports Illustrated.* The federal government stated that the guideline step was "not sufficient in itself to achieve the government's policy objectives" and the CMPA's executive director, Catherine Keachie, said the move "is very much a half measure, it doesn't successfully do it (stop split-runs)."[35] Nevertheless, the three ministers emphasized that foreign publishers that contravene or sidestep the government's policy objectives "would do so at their own risk."[36]

Free Trade

The existing Free Trade Agreement (FTA) with the United States had little effect on the matter of the *Sports Illustrated* split-run. In general, the FTA does not modify Canada's cultural industries (defined, in part, as including "the publication, distribution, or sale of books, magazines, periodicals, or newspapers . . . but not including the sole activity of printing or typesetting any of these").[37] The FTA did, however, affect the *Income Tax Act*, which discouraged Canadian advertisers from placing ads in U.S. publications. The Act was modified by repealing two subsections requiring that a magazine or a newspaper be typeset and printed in Canada in order for advertisers to be able to deduct their expenses for advertising space. Thus the FTA allows material to be deductible for Canadian tax purposes if it is printed in the U.S. (excepting Puerto Rico, the Virgin Islands, Guam, and other U.S. possessions or territories.)[38]

The North American Free Trade Agreement specifies that cultural industries are governed by the FTA: "The rights and obligations between Canada and Mexico regarding cultural industries will be identical to those applying between Canada and the United States."[39]

FOOTNOTES

[1] Canada, Statistics Canada, *Periodical Publishing*, Cat. no. 87-203 (Ottawa: Minister of Industry, Science and Technology, 1993), p. 10. Richard Siklos, "*Sports Illustrated* plan stirs murky debate in Canada," *The Financial Post*, 26 January 1993, p. 11.

[2] Fraser Sutherland, *The Monthly Epic* (Markham, Ont.: Fitzhenry and Whiteside, 1989), p. 182.

[3] Government of Canada, "Charest, Landry and Turner announce action on Interim Report from Task Force on the Canadian Magazine Industry," *News Release*, 19 July 1993; and Daniel Girard, "Government to protect Canadian magazines," *Toronto Star,* 20 July 1993.

[4] Statistics Canada, *Periodical Publishing*, p. 17.

[5] Peter Desbarats, *Guide to Canadian News Media* (Toronto: Harcourt Brace Jovanovich, 1990), p. 12.

[6] Sutherland, *The Monthly Epic*, p. 182.

[7] Quoted in Sutherland, *The Monthly Epic*, p. 186.

[8] Canadian Magazine Publishers Association, *The Importance of Section 19 of the Income Tax Act and Tariff Item 9958 to the Canadian Magazine Industry* (Toronto: The Association, 1991).

[9] Peter C. Newman, "A time to respect the law of the land," *Maclean's* (1 March 1993): 45.

[10] Ibid.

[11] Ibid.

[12] Telephone interview with Catherine Keachie, Executive Director, Canadian Magazine Publishers Association, 26 July 1992.

[13] Canadian Magazine Publishers Association, "CMPA calls on government to uphold 30-year policy on split-run magazine publishing," *Press Release*, 31 March 1993, p. 1.

[14] Telephone interview with Catherine Keachie.

[15] Christie Blatchford, "Mag publishers don't know their Can Cult," *Financial Post*, 23 July 1993.

[16] Statistics Canada, *Periodical Publishing*, passim.

[17] Enchin, "Magazine Davids need a better slingshot."

[18] Canadian Magazine Publishers Association, "CMPA welcomes federal commitment to toughen split-run legislation," *Press Release*, 29 March 1993.

[19] Newman, "A time to respect the law of the land."

[20] Statistics Canada, *Periodical Publishing*, passim.

[21] Desbarats, *Guide to Canadian News Media*, p. 12.

[22] Sutherland, *The Monthly Epic*, p. 270.

[23] Ibid.

[24] Harvey Enchin, "Magazine Davids need a better slingshot," *Globe and Mail*, 21 January 1993, p. B1.

[25] Newman, "A time to respect the law of the land."

[26] Richard Siklos, "*Sports Illustrated* plan stirs murky debate in Canada."

[27] Telephone interview with Catherine Keachie.

[28] Telephone interview with Heather Reid, Officer, Tariff Programs, Department of National Revenue, Ottawa, 26 July 1993.

[29] *Customs Tariff*, schedule 7, "Customs duties accelerated reduction order," item 9958.

[30] Telephone interview with Catherine Keachie.

[31] CMPA, "CMPA Welcomes Federal Commitment to Toughen Split-Run Legislation," *News Release*, 29 March 1993.

[32] Canada, Department of Communications, Task Force on the Canadian Magazine Industry, *Interim Report*, letter to the Honourable Perrin Beatty, Minister of Communications, 31 May 1993.

[33] Canada, Government of Canada, "Charest, Landry, and Turner announce action on Interim Report from Task Force on Canadian Magazine Industry," *News Release*, 19 July 1993.

[34] *Canadian Government Programs and Services* (North York, Ont.: CCH Canadian, 1993), para. 75,160.

[35] Telephone interview with Catherine Keachie.

[36] Canada, Government of Canada, "Charest, Landry, and Turner announce action on Interim Report from Task Force on Canadian Magazine Industry," *News Release*, 19 July 1993.

[37] Canada, Department of External Affairs, *The Canada-U.S. Free Trade Agreement* (Ottawa: The Department, n.d.), p. 301.

[38] Antony Jackson, *Free Trade and Canadian Culture* (Ottawa: Library of Parliament, Research Branch, 1988), p. 3.

[39] Canada, Government of Canada, *North American Free Trade Agreement: An Overview and Description* (Ottawa: n.p., 1992), p. 19.